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23 November 1981

# West Europe Report

(FOUO 61/81)



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## WEST EUROPE REPORT

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THEATER FORCES

ITALY

'NOVOSTI' REACTION TO SILVESTRI'S ARTICLE, HIS REPLY

Milan EUROPEO in Italian 14 Sep 81 pp 92-93

[NOVOSTI letter and Sylvestri reply published in "Letters" section under heading "USSR and NATO: Which Has More Atomic Bombs?"]

[Text] We can agree neither with the method used to calculate the nuclear forces of NATO and the Warsaw Pact nor with the figures arrived at in the article that appeared under the heading "We Compare Lineups in the European Theater" (EUROPEO 34, 24 Aug 81).

In the first place, the author's affirmation that the USSR includes in its calculation all of NATO's tactical weapons, regardless of range, does not correspond with the facts. The fact is, instead, that the Soviet Union calculates only those weapons that can reach the territory of the Warsaw Pact countries.

In the second place, the figures also do not correspond with reality. From what source do these monstrous figures on the Soviet preponderance emanate? The author prefers to not indicate any source. He himself, however, recognizes the fact that such figures are not objective and suddenly begins to talk of the need for a "more refined calculation" and of the need to consider the "percentage of inoperativeness, of impossibility of effective utilization, and so forth."

In the third place, the author does not mention the delivery vehicles of the advance American bases in Europe. Yet, the F 111 and F 4 nuclear bombers of the air bases in Europe, the FB 111 A and the A 6 and A 7 American aircraft-carrier planes have a cruising radius or effective action range of between 1,000 and 4,500 kilometers; in other words, they constitute a threat to the territory of the USSR and of its allies. In all, there are over 700 nuclear warhead delivery vehicles. In addition, the United States's Atlantic allies have over 300 medium-range vehicles of their own.

To these forces, the USSR contraposes its SS 20, SS 4 and SS 5 missiles and medium bombers. Their total number does not exceed that of NATO's medium-range vehicles. But if 600 new American missiles are brought in, the West will acquire a greater than 50 percent advantage over the Warsaw Pact. This, the Soviet Union, of course, cannot accept. As regards nuclear warheads, NATO's means of delivery now

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can carry at any one time 50 percent more payload than the corresponding USSR means. The deployment of the Pershing 2's and the Tomahawk's will increase NATO's preponderance of nuclear warheads even more.

In the fourth place, it is not true that "the Warsaw Pact total is growing" and that "that of NATO is diminishing." The SS 20 missile is indeed a modernized weapon, but NATO is also modernizing its medium-range nuclear weapons. England is using improved missiles for its Polaris submarines and will be getting Trident missiles. In France, 7-warhead missiles will replace the single-headed ones. The nuclear delivery vehicles of the advance American bases in Europe are also being modernized. The USSR, however--and no one knows why--is being asked by NATO to renounce the modernization of its weapons and to dismantle its SS 20 missiles, although it is well known that the USSR, in modernizing its missiles to maintain parity, is not increasing by as many as one its medium-range weapons, since its obsolete missiles are being dismantled and are not being moved to other regions. Each time one new SS 20 is deployed, one or two preexisting missiles are dismantled.

[Signed] Dmitrij Ardamatskij  
NOVOSTI Agency, Moscow

Stefano Silvestri, author of the article, responds:

Mr Dmitrij Ardamatskij's letter shows, above all, that he has not read carefully what was published in EUROPEO .

I have not laid claim to absolute accuracy. I wrote: "The calculations with respect to quality and quantity of weapons are infinite and none of them are totally convincing." That notwithstanding, those figures may be taken to be much closer to the truth than Mr Ardamatskij (who however does not say: The Russians appear to be enemies of figures) would have us believe.

A) Mr Ardamatskij affirms that the USSR includes in its calculations all those tactical nuclear weapons "that can reach the territory of the Warsaw Pact countries." That is exactly what is written in EUROPEO as well, namely, that the USSR "calculates all the tactical weapons in existence in the East as well as the West, of all ranges." Obviously, even a cannon with a range of 30 kilometers, if placed at the eastern border of the FRG, can strike a Warsaw Pact country such as Czechoslovakia or the GDR. When we speak of "Eurostrategic" missiles or weapons, however, NATO refers only to those weapons that can strike the USSR: And this is because the USSR is the sole nuclear country in the Warsaw Pact.

B) Mr Ardamatskij complains about our sources. They are Western sources: I have referred to the figures of the IISS (International Institute for Strategic Studies) of London. Those figures are confirmed by the Pentagon and by the American Arms Control and Disarmament Agency. Those also must be taken in a critical spirit, but they remain the most reliable and least proven wrong known to date. Unfortunately, the Soviets, who complain about the Western figures, do not publish their own figures.

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C) Mr Ardamatskij claims the figures given in EUROPEO are "monstrous," intending by this to say that the disproportion they reflect as favoring the USSR is excessive. We provided three types of figures. He criticizes above all the first set: 5,330 "Eurostrategic" nuclear warhead delivery vehicles for the USSR versus 1,512 for NATO. Let us see now how we arrived at those figures. The breakdown is as follows: For the USSR: 160 SS-20 missiles (The Americans say 200 out of a total of 250; we applied a discount.); 60 SS-5 missiles and 380 SS-4 missiles; 668 SS-12 missiles and Scud-B's (18 of which are in the GDR); 69 SSN-5 and SSN-4 missiles (on G-I, G-II and H-II class submarines, not considered part of the Soviet strategic nuclear force). Total missiles: 1,337. To these are added: 75 Backfire (TU-22M/-26) bombers, 318 Badger (TU-16), 125 Blinder (TU-22) and the fighter-bombers that can carry Fencer (SU-24) nuclear bombs totaling 370, Flogger (MiG 23/27) totaling 1,300, Fitter (SU-17) totaling 640, Fitter A (SU-7) totaling 165, and Fishbed (MiG-21) totaling 1,000. Total aircraft: 3,993. Grand total: 5,330 vehicles.

D) Mr Ardamatskij states that in the NATO total we have not included the nuclear vehicles at the advance American bases in Europe (the bombers, the F111, F4 and FB 111A fighter-bombers, and the A6's and A7's of the aircraft carriers) and the medium-range aircraft of the European Allies, totaling 1,000 "Eurostrategic" delivery vehicles. That is not the case. On the contrary, instead of 1,000, we have included 1,170 vehicles. Thus, we were more diligent than our interlocutor. And let us see now the breakdown for NATO: 18 French SSBS S-2/-3; 180 American Pershing 1A missiles in Germany (even though they can only reach the USSR's western border); 64 British Polaris A3 missiles; 80 French MSBS M-20 missiles on nuclear submarines; total missiles: 342. Let us go now to the aircraft: 57 British Vulcan B-2 (which are about to be retired from service); 156 American F-111 E/F in Europe (The USSR might wish to add 65 FB 111A which, however, are normally counted in the SALT tally, that is, as strategic weapons, and 126 F-111 D that could arrive in Europe from the United States, but that are normally not counted among the ready-to-use weapons; Mr Ardamatskij cites the FB-111A but must not be counting other weapons, since he arrives at a total of 1,000, which is lower than ours; these figures therefore do not make much of a difference); 33 French Mirage IV A (even though their Eurostrategic use is highly doubtful); 60 British Buccaneer (some on aircraft carriers); 318 F-104 belonging to NATO countries (the famous Starfighter, only a few of which are equipped for nuclear use); 40 Turkish F-4; 324 American F-4 (in Europe or on rapid reinforcement status); 80 Anglo-French Jaguar (of a total of 219, only 80 of which are equipped to carry a nuclear warhead); 30 French Mirage III E; 20 American A-6E and 40 A-7E aboard aircraft carriers, as well as 12 French Super Etendard aboard aircraft carriers. Total aircraft: 1170. Grand total: 1,512, as we set out to show.

E) As we have said, these figures were taken from the IISS. They are considered to be authoritative; indeed, they have been criticized in some cases as being too favorable to the USSR. Nevertheless, even adding 10 percent to the NATO figures and subtracting 10 percent from the USSR ones (a very, but very, arbitrary operation) we get 1,664 for NATO and 4,797 for the USSR.

F) But it may be that Mr Ardamatskij, while agreeing with our calculation of the NATO forces, does not agree with the inclusion of so many USSR forces; he is very

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imprecise and also difficult to understand. Nevertheless, he affirms that versus the Western forces the USSR deploys "the SS-20, SS-4 and SS-5 missiles and the medium-range bombers. Their total number does not exceed that of NATO's medium-range vehicles." As is evident, he overlooks many types of missiles as well as the fighter-bombers (which he nevertheless includes when he talks of the Western forces). At another point he increases the number of future American Cruise and Pershing 2 missiles, saying they total 600. Their total will be 562. Or less, if some countries refuse them.

G) Mt Ardamatskij affirms that we, perhaps taken aback by our own calculations, have brought the NATO and USSR figures closer together. This is not the case. We have simply gone from a calculation of delivery vehicles (that is, missiles and aircraft) to a calculation of warheads, applying a set of criteria suggested by the above-mentioned IISS. Some vehicles can carry only one warhead, others more. Some Soviet fighter-bombers presumably will be used conventionally and not as nuclear vehicles; and on this basis, for example, we have assumed that the 3,475 USSR fighters suited for nuclear use would carry only 611 nuclear warheads. Have we perhaps been too generous? In any case, in this way the calculation changes (although the imbalance remains): USSR 1,995, NATO 768. We have then made another gift to the USSR, increasing the NATO total by 400 warheads for the American Poseidon C-3 missiles aboard submarines. These units are already calculated in the strategic weapons total and are therefore being counted twice (as strategic and as Eurostrategic). This then brings the NATO total to 1,168. The next figure given by us (819 for the USSR versus 267 for NATO, or 555 including the Poseidons) is the one calculated by the IISS taking into account also such factors as anti-aircraft defenses, the coefficient of error, the coefficient of technical attrition, and so forth. The result is thus a very "refined" analysis of the effective number of Eurostrategic bombs that would strike their target.

H) Mr Ardamatskij complains, saying that the USSR total is not on the increase and that the NATO total is not on the decrease. The USSR total is indeed growing because SS-20's and Backfires are still being produced (at a rate of 3-5 a month for the missiles and almost 3 a month for the bombers) and these vehicles carry more warheads than the older ones. Meanwhile, the British Vulcans and possibly the French Mysteres and Mirages will be dismantled. The Italian and German nuclear equipped F-104's will also be dismantled. The Vulcans and F-104's will be replaced by Tornados, but in lesser numbers and not for some years to come. The NATO total will grow in the future, with the Euromissiles, the new French nuclear submarine and the British Trident, but this will not be for at least another 10 years. Should the USSR prefer to negotiate reductions prior to their entry into service, it may do so freely. NATO has already offered to do this. However, even with its projected future reinforcements, given the rate of growth of Soviet arms, NATO will not catch up with the USSR.

I) Mr Ardamatskij's statement that /each time [in boldface]/ an SS-20 is installed one or two older preexisting missiles are dismantled is not correct. I would like, however, to call attention to the fact that in the USSR total we have included 440 Soviet missiles of the older SS-4 and SS-5 types (out of a total

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originally calculated at between 800 and 900). Furthermore, NATO's new Euromissiles will not increase the Western total, as Mr Ardamatskij seems to think they will, since NATO will be withdrawing (and is in fact already withdrawing) 1,000 American nuclear warheads (and possibly also a certain number of British tactical nuclear warheads) from the European theater, including all or part of the Pershing-1 missiles and some aircraft with a nuclear capability.

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TERRORISM

INTERNATIONAL AFFAIRS

FRENCH OFFICIALS ALLEGEDLY INVOLVED IN ARMS SALES TO ETA

Madrid CAMBIO 16 in Spanish 19 Oct 81 pp 28-31

[Text] Trusted officials of former French President Valery Giscard d'Estaing and of former French Prime Ministers Michel Debre and Jacques Chaban Delmas have been involved in arms traffic with the terrorist organization ETA [Basque Fatherland and Liberty] and in the flight of Spanish foreign exchange.

This was the conclusion reached by some of the French investigators who looked into the "Touton Affair," the case of a customs inspector stationed in Bordeaux whom the Spanish police accuse of getting rich by selling arms to ETA.

But Henri Touton was not the only one who struck it rich (until he was arrested in 1978) in the arms traffic. Under the umbrella of the "Touton network," the famous SDECE [Foreign Intelligence and Counterintelligence Service] created its own network in 1975 and also did business with the Basque terrorists. This is the story.

The "Touton Affair"

The initial investigations leading to the discovery of the network of weapons trafficking bound for the Basque terrorists and in which French customs officials are involved, began on 14 November 1978.

On that day, police officers arrested DNED [National Bureau of Customs Investigations] inspector Henri Touton in Bordeaux and brought him before the courts on charges of corrupting public officials and tax evasion.

Two days later, while Touton was in jail, the Directorate of Territorial Surveillance (DST), France's domestic counterespionage service, which comes under the Interior Ministry, sent a document to the judge accusing the arrested customs official of "being in contact with well-known international smugglers and of being involved in the traffic of weapons bound for the Basque movement ETA."

In a second document, bearing neither address nor date and with an illegible signature, the DST pressed its case a few weeks later. According to this document, Touton was, in addition, an international smuggler with links to

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the Basilo association in Basel, Switzerland, from which he obtained 12 shipments of cigarettes and whiskey that he smuggled into other countries.

These two written charges constituted the conclusive proof by which the French courts sentenced Henri Touton, a 50-year old native of Soustons in Les Landes Department, to 5 years in prison and fined him 180 million French francs (some 3 billion pesetas).

The French police found 1.6 million francs (27 million pesetas) in two checking accounts that Touton had in his name in the Caisse d'Epargne and in Credit Paysan d'Aquitaine, plus another 3 million francs (about 50 million pesetas) in a Swiss bank.

When he was arrested, inspector Touton was unable to explain where he had gotten the enormous fortune discovered in his name, nor could he account for the 300 cases of cigarettes uncovered in his house or the funds that enabled him to purchase a Citroen CX R200 and a luxurious chalet in Merignac.

His only explanation was that in 1972 three Spaniards, Amador Rubia Palacios, Isidro Gallart Pujol and a fellow named Ramon, had contacted him about taking money out of Spain and that he had served as a middleman because he was very good friends with Henri Echeverry, a French Basque and one of the "capi" running the money smuggling operation from the French Basque Country.

According to his statement to the judge, the money that he had in the Caisse d'Epargne and in Credit Paysan d'Aquitaine had been handed over to him in 100-peseta bills by Amador Rubia Palacios and Isidro Gallart Pujol in a bar in the French town of Bayonne.

According to Spanish police sources, his story is true, but only partially. Both Amador Rubia Palacios and Isidro Gallart Pujol are wanted in Spain for taking currency out of the country and for arms trafficking to ETA, in connection with Touton's gang.

According to the Spanish police, Amador Rubia Palacios was born 48 years ago in Polopos (Granada) and currently lives in Les Escaldes (Andorra); there are three court requisitions and one police requisition pending against him for taking money out of the country and for arms trafficking.

Gallart Pujol is in the same situation. Two courts in Madrid and one in Barcelona have requested his arrest, and according to Spanish police sources, "he'd better stay in Andorra because if he feels like showing up in Spain, he's going to have to explain a number of incidents involving arms trafficking to Basque terrorists."

According to Spanish police, the fellow named Ramon is none other than Ramon Ubals Entregues, a 50-year old waiter born in Tarrasa who was indicted in Barcelona in 1971 for currency trafficking and is thought to have links with the "Touton network."

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All of them, plus a fourth person, a Spanish national whom they called Michelena, a hotel owner in Calella (Gerona), met quite often with inspector Henri Touton in Bordeaux, Barcelona and Calella, where they planed to take capital out of Spain and to smuggle in weapons for the Basque terrorists and divided up their profits.

There was a sixth individual involved in the trafficking of weapons bound for the Basque military organization ETA: Paul Errandonea, a 40-year old French Basque who until recently owned Le Suisse bar in Saint Jean de Luz and now runs El Caserio in Urugne.

Errandonea, whom the French DST had under surveillance for more than a year, was the intermediary between ETA and Touton, according to the prosecution case against customs inspector Touton.

Paul Errandonea had set up a small but effective smuggling network to transport weapons and other merchandise from Bordeaux to Spain.

According to the indictment, the network consisted mostly of apparently unsuspecting truck drivers who earned 250,000 pesetas a month employing the Chinese method, that is to say, using light trucks that most often crossed the border at Col D'Echegaray and delivered the contraband to San Sebastian, Bilbao, Vitoria and Madrid.

#### Mysterious Death

Another French Basque member of the "Touton network" allegedly involved in arms traffic to ETA was Henri Echeverry, who died as a result of a traffic accident, according to the indictment in Bordeaux.

Well-informed sources have told CAMBIO 16, however, that Echeverry died on 18 November 1975, a day after the Financial Crimes Squad had shot him in the rear during a confrontation at Barajas Airport.

Henri Echeverry was taken to La Paz Hospital in Madrid, where Franco was to die 2 days later, treated successfully and released. The next day, he was found dead inside a car that had crashed on the outskirts of Madrid.

According to the same source, someone had tipped off the Spanish police to the trafficker and smuggler, who as he was set to leave Spain from Barajas Airport, was carrying a suitcase with 80 million pesetas that he was going to bring illegally into France and a 9 millimeter pistol.

Who was the informer? While some sources point to the French DST, there are those who see the hand of customs inspector Henri Touton in this mysterious affair, which does not appear in Spanish police files.

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#### More Traffickers

In point of fact, 2 months before Echeverry's death, Touton's former mistress, Henriette Castillon, who was having an affair with Henri Echeverry, had shown up at Bordeaux customs and reported inspector Touton's "irregular" course of action in connection with arms traffic bound for Spain.

Henriette Castillon's accusation gave rise to an investigation of inspector Henri Touton. However, even though the French customs inspector had already amassed much of his fortune selling arms to ETA, the Bordeaux police did not consider him a suspect.

What is more, they decorated him. On 11 February 1976, 8 months after the charge by his former mistress, Andre Pignot, the head of the National Bureau of Customs Investigations and a man who enjoyed the complete trust of French President Valery Giscard d'Estaing, pinned the medal of honor on inspector Henri Touton.

But Touton was not the only person engaged in arms trafficking to ETA in 1975. The customs inspector's setup must have seemed very lucrative to officials in the French SDECE, who started their own in the mid-1970's.

According to the information in the indictment, the SDECE had selected three individuals in 1974 to penetrate the Bordeaux underworld and learn the techniques used by Touton and Errandonea to get across the French-Spanish border, in order to set up a parallel arms trafficking network to smuggle weapons through Spain to the French-speaking countries of northern Africa, should the need arise.

The three individuals who set up the network were Claude Cabot, a wealthy man from Normandy who owns a renowned stable of horses as well as extensive property in northern France; Jacques Berthelot, a poor spy who rents a room in the Paris slums and who had begun his career during the war in Algeria, and Patrick Laurent, a childhood friend of Cabot's who supported the operation technically through a company he owned in Switzerland.

In setting up their network, Berthelot took the assumed name of Louis Hamon and started a company called Sara on the outskirts of Paris to handle the arms trafficking and smuggling activities into Spain.

Using the front he had set up in Paris, Jacques Berthelot-Louis Hamon contacted Paul Errandonea, and making use of the network of truck drivers that the French Basque ran from Bordeaux, they began bringing cigarettes, firearms and liquor into Spain.

#### Crossing the Border

The French foreign counterspies brought a total of 11 clandestine shipments into Spain, delivering smuggled weapons to Vitoria and San Sebastian, until

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an internal report of the DST, the SDECE's rival agency, put an end to Cabot's and Berthelot's underground network.

The report seems to be part of the domestic war that France's two secret services, the DST and the SDECE, are waging.

In November 1978, as the Bordeaux police were jailing customs inspector Henri Touton pursuant to a confidential document of the SDECE, the DST was drafting an internal report that it sent to the French authorities, openly accusing Cabot and Berthelot of "helping" weapons deals with ETA.

In breaking up Cabot's and Berthelot's network, the DST was accusing the agents of its rival, the SDECE, who are officially answerable to the government of former President Valery Giscard d'Estaing, of openly supporting the Basque terrorists by supplying them arms.

#### Roundabout Routes

Most of the weapons smuggled into Spain by both Touton's and the SDECE's network came from the socialist countries, mainly Czechoslovakia and the GDR, where, according to the case against Touton, the police escorted the trucks right up to the border.

The original destinations of the weapons were points in the FRG or Switzerland, where Touton's or the SDECE's men picked them up and forwarded them to other countries, primarily Spain and Italy, where there are major terrorist markets.

That was not always the route they followed, however. At times the weapons came from Western countries like Belgium or West Germany and arrived in Switzerland by ship or plane from Antwerp, Rotterdam or Hamburg. From there they traveled to East Germany or Bulgaria, then through Austria or Czechoslovakia into France and later to Spain.

By making use of these roundabout itineraries, whose primary aim was to outsmart the Western authorities in charge of cracking down on illegal arms sales, the traffickers ran little risk, inasmuch as they were treated like kings in the Soviet bloc countries, through which most of the route passed. Jean Coelsch, one of the truck drivers in Touton's network, admitted as much. He described, for example, how in crossing the Bulgarian border with a shipment of revolvers, the army escorted him the entire time and invited him to stay at a luxury hotel for 2 days, which was precisely how long it took the troops to unload the guns from his truck onto another to ship them back to the West.

#### Friends in the East

Moreover, in exchange for smuggled whiskey, butter, perfumes and cigarettes, the authorities in the Eastern bloc countries furnish the truck drivers the forged documentation they need to bring contraband weapons into the Western nations.

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Judge Georges Sengelin, who has been hearing the case against Touton for a little more than a year now, has cited testimony such as that given by a Spaniard named Roubalaya. Roubalaya asserted that he never had problems with arms trafficking in Romania because "there was always some official who in exchange for a case of whiskey would provide you with documents with which you could travel through half of Europe without being bothered."

Jean Coelsch, one of the "Touton network's" haulers, told Judge Sengelin that he got 10,000 francs (some 170,000 pesetas) for each weapons shipment and that on one of the occasions that he had to deal directly with Swiss traffickers, on the outskirts of the city of Basel, he was astonished to see that a heavy machine gun had been mounted on the balcony of the house that they were in and that 10 armed bodyguards accompanied the organization's top "capi" everywhere they went.

Judge Georges Sengelin corroborated this assertion to CAMBIO 16; he has met more than once in Switzerland with traffickers, who, in his own words, "are always very elegantly dressed, looking their part and heavily protected."

They can certainly afford it. According to the statements that several weapons traffickers have given to Judge Sengelin, each of the networks operating out of Bordeaux and Marseilles brings at least five truckloads of cigarettes, whiskey and firearms into Spain every week.

Just as many cross the Italian border bound for Rome, Venice, Naples and Sicily, where the "Touton network" had also sold arms. According to all the investigations, the jailed customs inspector is only the tip of the iceberg of a much more extensive network with connections in the FRG, Switzerland (where the SDECE had set up several business fronts for smuggling purposes), Spain and Italy.

Inspector Touton was obviously not alone in smuggling weapons to ETA. Proof of this is that in 1975 Grobs, one of the top men in West German customs (in the Investigations Bureau, ZFA), made it known to the French Government that a high-level French customs official was involved in arms traffic bound for Spain.

This high-level official was none other than Saint-Jean, one of the assistant directors of France's National Bureau of Customs Investigations (DNED) and Andre Pignot's right-hand man. In spite of this serious charge, Saint-Jean is still in his post.

The other assistant director of the DNED, Rene Navrault, whom CAMBIO 16 has identified in a photograph taken while he was dining at Henri Touton's chalet with two of Bordeaux's leading smugglers, did not come out looking too good from the statements that his boss, Andre Pignot, made to Judge Sengelin last 23 April.

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### Close Friends

According to the head of the DNED, Navrault and Touton had very close ties, and he, as head of the DNED, was extremely puzzled that all of the investigations into arms smuggling in the Bordeaux region always came to naught.

It is likely, of course, that additional accomplices in the arms trafficking bound for ETA are to be found at even higher levels. The French press has brought this up again in recent weeks.

The "Touton affair" took place in Bordeaux, the fief of former Prime Minister Jacques Chaban Delmas, who must have been on top of the matter for some time, since the authorities in this region come under him.

President Valery Giscard d'Estaing must have also been posted on this ugly business. From 1959 on, when he was appointed secretary of state for finances, Giscard ran the customhouses that come under this ministry, and therefore the director of DNED, Andre Pignot, and assistant directors Saint-Jean and Rene Navrault must have enjoyed his confidence.

With regard to the SDECE, which is also linked to arms sales to ETA, the former French chief of state must have also been informed about its activities. The SDECE comes under the office of head of state, Alexandre de Marenches, who was chosen on 14 October 1970 by Georges Pompidou (Jacques Chaban Delmas was prime minister) and confirmed by Valery Giscard d'Estaing when he became president some years later. All of the top-level officials in the SDECE were later chosen by Giscard.

The French press has gone much further in the case of Michel Debre, the former prime minister who also served as finance minister under Pompidou and defense minister under Chaban Delmas. The weekly MINUTE has accused his son, Vicent Debre, of links with international arms trafficking and of being directly involved in the "Touton affair."

Meanwhile, inspector Touton has 3 years left in jail, and his only consolation and hope is that Judge Georges Sengelin will push the case much further than his colleague Annie Leotin, who initiated the prosecution, and bring to light all of the hidden accomplices in this sordid affair, which, by all indications, could tarnish much of Valery Giscard d'Estaing's administration.

In any case, only the socialists, who in the 1972 common platform called for the abolition of the SDECE, can, if they want, clear up the links between French customs, the SDECE and ETA. For the time being, the fact is that the Mitterrand administration does not seem that anxious to get to the bottom of the matter.

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TERRORISM

INTERNATIONAL AFFAIRS

THOROUGH INVESTIGATION OF ARMS TRAFFICKING URGED

Madrid CAMBIO 16 in Spanish 19 Oct 81 p 3

[Editorial by Juan Tomas de Salas: "France Must Explain Itself"]

[Text] The frightening article that we have published in this issue, based on evidence and documents in the possession of the French courts, increasingly confirms the disturbing suspicion that Giscard d'Estaing's administration was helping and arming ETA. Specifically, there is evidence that France's counterespionage service ran a network that smuggled weapons and other combat materiel to ETA from Eastern Europe. Moreover, a high-level customs official from Bordeaux collaborated with another smuggling ring that also supplied ETA with arms. This is just the top of the iceberg in the French Government's complicity in the subversive war on Spain's democracy, but based solely on what we are publishing in this issue, the Spanish Government should unquestionably demand prompt explanations. It's bad enough for them to burn our trucks and to vote yes one day and no the next on our membership in the European Community, but it's much worse for them to secretly abet and promote a subversive war on our soil. With "friends" like this, we would be better off permanently surrounded by enemies. Richelieu Giscard d'Estaing was aiding Spain's democracy with one hand and stabbing it slowly in the back with the other. And the worst part of it is that the available information on French Government complicity in arms trafficking includes not only Spain but Italy as well, and there is also a German connection that might perhaps explain the Baader-Meinhof gang's terrorism. What the devil was the French Government trying to do by taking part in this shameless and sordid war on its three neighbors and two allies? A shady affair like this demands an in-depth explanation.

Mr Mitterrand's assumption of the presidency has enabled this initial evidence of French Government complicity in the subversive war against Spain to come to light. Publicizing the details of Giscard d'Estaing's dirty wars is not enough, however; the current French Government must also explain in detail what happened, punish the culprits and assure our government that France has stopped knifing us in the back. It is true that since the advent of Mitterrand the police links between the two countries have improved radically, and the French Government's desire to help ETA seems to have vanished, but we need firm guarantees that what happened will not happen again. Such guarantees will be sufficient only if the Mitterrand administration

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carries forward the investigation into the government agencies that aided ETA. If 20 years ago the Ben Barka affair brought to light the hidden activities of French counterespionage and if the unfortunate operation that cost the life of the Moroccan opposition's leader culminated in a purge of the Frenchmen responsible, then today more than ever the government must purge the bizarre French spies who have not only guaranteed ETA's immunity on French soil but are also arming it to slay Spain. If France under Mitterrand has truly abandoned Giscard d'Estaing's shady imperial battles, then it has to convincingly demonstrate this. Otherwise, the Spanish Government would be more than justified in going before the European Parliament, the Council of Europe, the UN or wherever to tell the world that this supposed friend is promoting subversive wars across its borders.

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ECONOMICS

FRANCE

URI, ATTALI, EUROPEAN VIEWS: NATIONALIZATIONS, INFLATION

Milan IL SOLE-24 ORE in Italian 24, 29 Sep; 1, 6 Oct 81

[Series by Ugo Piccione, foreign correspondent for IL SOLE-24 ORE, including interviews with economists Pierre Uri and Jacques Attali]

[24 Sep 81, p 3]

[Text]

Travels in the New France

Socialist economist Pierre Uri talks. Mitterand keeps close watch on the monster. "If the Elysée doesn't change policies, inflation could soon hit 18 percent."

PARIS: -- We begin our travels in the present state of the economy in Mitterand's socialist France, and in its possible future scenarios with Prof Pierre Uri, 70, socialist economist and world-renowned author, an expert in matters of industry and government finance, and Third-World advocate, a member of the Italian Socialist Party [PSI] economic commission and of the committee set up by Prime Minister Mauroy to draft tax reform legislation. Optimistic over the recent political turnabout in his country, Uri is still faithful to his image: and, with his usual intellectual rigor, he doesn't even try, in this interview, to hide his deep concern and serious reservations about a socialist economic management that has thus far neglected the problem of inflation to concentrate its hitherto unsuccessful efforts on abolishing unemployment.

Our first question is about industrial policy. Mauroy's government's rationale for nationalizing the biggest of France's industrial conglomerates and its major banks cites the urgent need to "revitalize" the nation's industry and construct an industrial policy more responsive to its economic, social, and industrial ambitions. What, we asked Prof. Uri, is the major thrust of that policy, and what innovations does it embody?

[Answer] Industrial policy will be developed essentially on two fronts. The first is what we call "recapturing the domestic market." This does not mean we shall be engaging in protectionism, nor that we shall

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relax our efforts to spread the "made in France" label over an increasing share of foreign markets: very simply put, it means that we shall make a total commitment to restore the competitive edge to many sectors of the national economy which, like furniture or shoes, are barely managing to subsist without reacting to competition from foreign manufacturers who have thus managed to take over an up-front share of the French market. The idea is to find out what these industries lack so that, given parity in economic and social conditions, they can produce and sell like their Italian or German competitors. I am certain that, in many instances, we shall have to proceed with corporate restructuring that will be facilitated by government incentives for investments and will have no untoward impact on employment, since all will be aimed at increasing production.

The second front for developing the government's strategy for industry will be the area of technological innovation and diversification. Let me make that clearer. The public sector of industry will have to make a far more decisive commitment than in the past to what are generally referred to as the hi-tech industries. But, in this field again, we shall have to make choices. We can no longer afford to copy -- often after years of delay -- what is being done in the United States, thus setting our sights on nuclear power or color TV.

France has tremendous technological and industrial capacities in sectors that will be adequately expanded: I am thinking, among others, of our expertise in oceanographic exploration, in natural-gas-searching equipment, and marine oil-drilling platforms. In the meantime, we must abandon the road of industrial specialization the preceding government chose. It's a question of scale. A small country can become totally specialized in one area; a country like France cannot base its specialization on anything but a diversified industrial fabric. Excessive specialization would inevitably lead to unemployment. And there is absolutely no contradiction between modernizing production methods, boosting productivity, and raising employment levels and market shares in the traditional sectors on the one hand, and a firm commitment to the hi-tech areas on the other.

[Question] Over the last 4 months unemployment in France has risen markedly, as have inflation, the national debt, and the trade deficit. Doesn't it look to you as though the way the new coalition is managing the economy might, at least in the short term, aggravate the country's present difficulties?

[Answer] There you touch a very sensitive point. It is true that the decision to increase the guaranteed minimum wage, family subsidies, pensions, and so on has meant an increased burden on the State and a rise in the amount of currency in circulation. And it is also true that we have neglected the problem of inflation. Obviously there is nothing to be gained by increasing the nominal purchasing power and then seeing it get soaked up by mounting inflation. I confess I am very much concerned at the methods adopted to curb inflation. They are methods -- and here I am speaking my personal view --

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altogether too reminiscent of the ones the Barre government tried. There was a decision, for example, to make drastic changes in a lot of public utility rates, when it would have been wiser to spread them out over time. On the other hand, I should have preferred to see the budget-drafting process not limited to forecasting, and, to some extent, informing the economic system of a specific rate of inflation which, furthermore, everything seems to indicate will be far higher. Only Austria can boast of success, and at relatively modest budgetary cost, in curbing inflation while showing a certain rate of economic growth: it succeeded thanks to an agreement that allows it to divide the growth in national income among profits, wages, and social transfers. If you look carefully at the machinery of inflation in the various European countries, you see that it is affected by two major phenomena. The first is that of the spiral: not only the wage-price spiral, but the price-price spiral. The successive rises in oil prices, in industry prices, in farm prices, in wholesale prices, in consumer prices, in wages, and so on. It is one of the reasons why we cannot slow inflation and why there is always one sector lagging behind the others and which in turn sets off a new round of increases. The Austrians' secret is that they make these adjustments simultaneously. It is a method we tried ourselves back in the days of the "Fourth Republic" and one to which, I think, we ought to start thinking about going back.

The second phenomenon that fuels inflation lies in the machinery for structuring prices and in business practices which skew and distort free competition. Here in France, for example, businessmen and industrialists do not always ask themselves what the price level should be which, if sales were increased, would allow them to make an adequate margin of profit. The current practice is, instead, to pick a percentage of profit based on cost. And so when costs go up there is an immediate rise in prices to protect that specific profit percentage.

[Question] What do you think, then, of the request from organized labor for a "temporary and selective" price-freeze?

[Answer] It is a system which has turned out to be not very effective and which has often contributed to slowing development in the basic sectors. I have a lot more faith in the efficacy of steady and complete consumer education. The French -- and they are not the only ones -- haven't the faintest idea of the profit margins of television dealers, of clothing stores, or of the shops that sell Italian shoes. And they are unaware that restaurant prices are going up twice as fast as the price of food at wholesale.

[Question] The recent decline of the dollar is causing increased tensions between the franc and the German mark, which has been rising with respect to the other EMS currencies, too. Do you think that the technical measures taken by the government will succeed in containing the pressure on the franc and avoiding, in the long run, an adjustment of the central parities within the EMS?

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[Answer] I, too, oppose any revision in the franc-mark exchange rate: at least in the present situation. In these last several months, all the EMS currencies have declined in value vis-a-vis the dollar, the pound, and the yen: and even though there have been signs of a turn-around in the last few days, the dollar still retains some of the edge it had accumulated. I don't think therefore, that the situation calls for moving to a double adjustment of the franc, one vis-a-vis the dollar and the other vis-a-vis the mark. The inflationary impact of such a move on the French economy would be too strong. I do not rule out, though, the possibility that, if we were to go on for 2 or 3 years to show inflation rates sharply higher than those of Federal Germany, it would then be necessary to move to adjustments within the EMS. It is precisely for this reason that I hope the government will make a more practical commitment to the fight against inflation: I do not take it for granted that we are going to see an 18-percent inflation rate, but I frankly fail to see how what the government is doing today is going to avoid it.

[29 Sep 81 p3]

[Text]

## In the Wake of the Nationalizations

What if business were to pull out of Paris? Employers are scared, and the unions have a pistol at the government's head. And meanwhile, the international financiers are threatening to turn their backs on Mitterand.

PARIS: -- "It was a political decision which penalizes industrial and financial groups that have displayed remarkable efficiency. A futile, costly, and dangerous operation; futile, because the State already had pretty fair control of the economy; costly, because it soaks up tremendous resources which the State could have put to better use in encouraging investments and boosting employment; and dangerous, finally, because it concentrates 40 percent of France's industrial production in the public sector and vests almost total control of credit in the State. That control will accentuate industry's already heavy dependency on the government."

This was the bitter and anxious comment of Francois Cayrac, president of the French Confederation of Industry, on the massive nationalization of a vast sweep of the nation's economic structures, imposed by socialist President Mitterand to keep his campaign pledge to use greater State intervention in industrial management in order to build a "new society, and, above all, a more equitable one." Bitterness and anxiety which stem less from ideological preconceptions than from a realistic assessment of the risks to which it leaves open an economy that, while today it is an integral part of a competitive, liberalist international system, could slide tomorrow toward patterns not unlike those of the "real socialist" countries.

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The move the French socialist-communist government has taken is unparalleled for intensity and scope in all Western postwar history. With nationalization, the public sector takes over sole control of seven major industrial conglomerates (Saint-Gobain, Rhône, Poulenc, Thomson - Brandt, Pechiney-Ugine-Kuhlmann, General Electric [CGT], Sacilor and Usinor) and of the two most prestigious financial houses (Paribas and Suez) in the nation, plus 51 percent interest in Dassault and Matra (companies active in aviation and defense), and about 95 percent of the entire national credit system. The State will thus be handling almost all management in sectors such as steel, electronics, refined chemicals, and aluminum, and will further consolidate its position -- in many instances already a dominant one -- in the areas of electrical power construction, specialized metallurgy, data processing, housing, glass, pharmaceuticals, automobiles, and petroleum. Not to mention the fact that it will control better than two thirds of France's technological research, and as much as 55 percent of it in data processing and 62 percent in chemicals and electronics, and an actual 93 percent in aeronautics.

This is, thus, a "revolutionary" nationalization operation (the adjective is Mitterand's own) which, on a number of counts, justifies the extreme mistrust evinced by French private industry and by the international business community. This is not only because it remains to be seen what will become of the French subsidiaries of such big multinationals that are based abroad (such as Roussel Uclaf, CII-Honeywell, Bull, and ITT) and foreign subsidiaries of French conglomerates which have been nationalized, or the criteria which will govern the selection of the considerable highly diversified industrial holdings of Paribas and Suez which would be ceded to the private sector. Another and far more important reason is that they fear the disruptive effect on the nation's entire economic system of what may turn out to be a bureaucratic management with welfareist and patronage-oriented leanings running public industry and credit, as well as the policies which may, through the publicly owned companies, be forced on private-sector management in the areas of industrial relations, investments, prices, technological research, distribution, and even foreign trade.

These fears are more than understandable, at least in the light of the discouraging experiences -- to say the least -- of the British and Italian rounds of nationalization. Nobody in France, though, challenges the efficiency of Renault, the State-run railroads, the gas and electric utilities, or the banks which have been run by the State for years now. Nor do we forget that two nationalized companies -- Renault and Volkswagen -- have stood up best under the severe buffeting the world automotive industry has been taking. It is nevertheless obvious that nationalization can succeed only if it is not perceived as a simple short-term operation, but is viewed as the instrument of a consistent industrial, technological, and social policy for the long term which, in turn, implies sound economic management.

This is an argument which will very shortly be put at least partially to the test. The restructuring operations which will be necessary to streamline and order the highly diversified and sometimes redundant activities of the new nationalized conglomerates (which will be running

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more than 1,200 companies) should logically result in some cutbacks in payrolls. That is a hypothesis which the unions are in no way disposed to entertain. Henri Krasucki, deputy secretary-general of the communist CGT, leaves no room for doubt on that score" It is clear," he says, "that some restructuring will be needed: but it won't be done at the workers' expense. Particularly not at a time when we have close to 2 million unemployed. The way we see it, restructuring cannot be made another word for layoffs. And it is ridiculous for the left, now that it is in power, to decide to pursue the very same methods as private capitalism did: in other words, a strategy which, through plant automation or other streamlining formulas, aims primarily at increasing productivity in order to get the same volume of production and profit with fewer people on the payroll. What restructuring ought to mean is replacing economically obsolete operations with sounder ones: but without leading to payroll slashes in the companies involved."

This is a view which, in view of the expanded influence of the labor unions on the government, would seem to support the many perplexities in private enterprise circles over the nature of the future management of the public sector, with which, in addition, the workers will be brought into association through more direct participation in the decision-making bodies. As the days go by, we witness mounting union pressure on the government for radical replacement of the people at all corporate summits, not only those newly nationalized, but also the -- politically suspect -- people appointed by the previous government -- of the corporations which were already part of the State participation area. The upshot of that is that, amid the consequent state of profound uncertainty, the decision-making process is to all intents and purposes blocked at the corporate level. "It's paralysis," we were told by Michel Develle, deputy director of the economic studies office of Paribas, "because nobody wants to or can assume responsibility for making an decision at all." And this, of course, is beginning to affect the enthusiasm of foreign bankers and industrialists about tightening, preserving, or strengthening their ties with the French State-owned companies.

There are symptoms galore of a kind of rejection syndrome internationally toward the nationalization wave. There have been several examples over the past few weeks. The U.S. colossus, Continental Telephone, decided to scrap its plans to set up a jointly owned subsidiary in the United States with the biggest corporation in the Thomson-Brandt conglomerate. And it would appear that there is no longer any serious talk of the joint venture which was to have joined Thomson-Brandt and Germany's Telefunken, Britain's Thorn, and Japan's JVE in common production of a very broad range of sophisticated electronics products for television and high-fidelity sound systems. America's Becker Bank, fourth in the U.S. ratings for investment banks, just the other day announced that it was ready to buy back the 20 percent interest Paribas owns in Becker, because, explained Becker president Wender, "We cannot keep a company that has been taken over by the State as a partner."

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These are symptoms, however, which do not seem to trouble the French left. "It's merely a passing phenomenon," says Pierre Uri. I personally do not believe things will really turn out as the various Cassandras say they will. Take Renault, for example: it's a State-owned corporation, it has branches in the major world markets, and it is associated in the United States with American Motors, the fourth largest automaker in the United States. Or take Ford which has long been working on a joint undertaking with SNIAS, another public-sector company that is active in the aerospace field. It is true that some small or medium foreign companies are saying -- right now -- that they don't want to do business with State-owned corporations: but I am certain that, sooner or later, they will wind up taking their cue from the big multinationals. We know from experience that the decisions of customers and partners are not affected even minimally by the fact that the stock of this or that French corporation is controlled by the State. Otherwise, how would you explain the fact that the three major lending institutions, the Banque Nationale de Paris, Credit Lyonnais, and the Société Générale, which have been in the public sphere for years, have managed to expand their international activities and ties?"

This is optimism shared, albeit with some reservations, by Develle, who believes that nationalization may well expose France to intense political pressures which would, inevitably, have repercussions on the domestic economic and financial levels. "Who can say," he asks, "that some fine day the Arabs, for instance, won't decide to use a Paribas associate in that area of the world -- our banks, I mean, that operate in the Gulf Emirates and in Lebanon -- to bring pressure to bear to influence the policies of the French government toward Israel?"

That is anything but an abstract assumption. At least it is if you consider the position recently taken by the monetary authorities in Saudi Arabia who, as LE FIGARO reported, last month turned down a request from the French treasury for a \$2-billion loan for a transfusion into the currency reserves of the Bank of France. That was a decision Mitterand hopes to reverse in the course of conversations he will shortly be having in Riyadh with the top political leaders of that country, who will most assuredly not let slip the chance to ask, in exchange, for some sort of commitment on their financial participation in the newly nationalized Dassault Aviation group. The Saudis are counting heavily on that participation for political and strategic considerations, so as to diversify their sources of supply for military materiel and thus to cut back on their strategic dependency on the White House which, witness the stiff resistance in the Congress in Washington to the proposal to sell Riyadh the AWACS radar surveillance planes, is subject to heavy influence from the strong U.S. pro-Israel lobby.

[6 Oct 81, p 3]

[Text]

Mitterand: a Pink Protectionist

One point the socialist government, organized labor, and business and industry all agree on: there must be brakes on imports.

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PARIS: -- Today we've got the "wine war." Tomorrow maybe it will be the automobile war, the knitwear war, the furniture war, the toy war, the major appliance war, the machine-tool war, or the surgical instrument war, the hospital equipment war, and so on: war, in short, in all the sectors where, over the years, French products have lost ground in the face of international competition. From the bridge of the ship of State in the Elysée Palace, Captain Mitterand has decreed general mobilization for France -- from captains of industry to merchant princes, from bankers to consumers -- for a massive offensive aimed at winning back from foreign manufacturers the space they have carved out for themselves on the French market and, at the same time, getting the economy rolling again and, with it, the nation's employment levels.

This is what Mitterand has called "winning back the domestic market." An operation based on the assumption that the international division of labor and production can be decided upon only in France: it must be made to bow only to French interests. And everyone is called upon to see that it succeeds: the State Participation corporations ("The recent nationalizations are a defensive weapon for French production"), selectivity of credit and investments ("Because our industries must succeed in making products that are on demand in the domestic market"), and the consumers ("Because for every foreign product bought there is one French worker without a job").

In practical terms, the offensive should not involve traditional protectionist measures such as quotas or surtaxes, which would expose France to trade retaliation authorized under the GATT and in the EEC, but in their place steps to beef up the already sophisticated machinery of border controls to make sure that foreign products meet the standards of their country of origin as to quality, safety, etc.

Attached to this machinery, which has been successfully tested in connection with Italian wines, will be others. Like the one devised in September to "revitalize" the furniture industry, this, in addition to a pledge from distributors to replace at least 30 percent of their foreign purchases with French products, calls for tax breaks for CODIFA (an ad hoc agency for technological and marketing expansion in the sector), aid for streamlining and automating plants and production procedures, national advertising campaigns on TV, special savings passbooks for furniture issued only to purchasers of French-made furniture.

Specific instructions would be given to all government agencies (ministries, hospitals, schools, etc.) and to State-owned corporations to place their orders for supplies with domestic sources: presumably by more selective channeling of their contract capital and, in the case of the banks, through lending policies which would give priority to purchases of French products.

The steady deterioration of the domestic economic situation -- whose outstanding features are irresistibly rising inflation, unemployment, and trade and public spending deficits, in addition to a sharp drop

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in the exchange rate of the franc and a steep parallel increase in wage and production costs -- has certainly contributed in France to a quickening in the embers of protectionism that have smoldered for so long beneath the ashes. Even before the recent Franco-Italian "wine war," this was evidenced in the countless technical-administrative cavils trumped up by French customs to stem -- insofar as possible -- the rising tide of imported tape recorders, shoes, knitwear, and television sets.

But that's not all. The offensive launched from the Elysée finds a logic of its own even in the rhetoric of candidate Mitterand, which even then foreshadowed something of a protectionist philosophy (in its platform, the Socialist Party promoted a campaign to back the "Made in France" label which the new president dare not disavow. Most particularly, he cannot renege on it now, when he feels himself caught in a pincers movement between business mistrust and a rising tide of disappointment in the ranks of organized labor: business takes issue with his economic timing for the latest round of nationalizations, not to mention rising wage costs and tax pressures on corporations; labor blames him for failing to restore full employment (job levels are actually declining) or to do something about the purchasing power of wages (because inflation has practically swallowed up the recent successive rounds of increases in nominal wage levels, pensions, and all the other welfare mechanisms).

"I think it extremely unlikely," we were told by Yann de l'Ecotais, co-publisher of L'EXPRESS, "that the Mauroy government can or even knows how to hold out against the blandishments of protectionism, at least in certain sectors. Frankly, I am persuaded that this is the very road they will choose in their efforts to protect the franc -- which is plummeting vis-a-vis both the dollar and the German mark, which is the currency of our most important trading partner -- and to keep at least a few of their campaign pledges. First among those is the promise to provide jobs and to build up the domestic demand which constitutes the core element in the government's economic strategy."

It is clear that, insofar as it assigns top priority among all the variables to jobs, this strategy cannot -- much less in the present recessionary slump in international trade -- help but turn to some reliance on a little protectionism. It will do so in the understandable conviction that -- counting on increased levels of plant capacity utilization and the higher profit return stemming from an "exclusive" access to the domestic market -- business and industry will be persuaded to make those fixed investments upon which, in turn, depends the gradual recovery from unemployment, as do more adequate growth rates.

This is a view that is shared, albeit with varying degrees of intensity, by organized labor and by the employers: labor supports it because it anticipates the imminent creation of new jobs and, in the long run, higher wages; business and industry like it because it promises new market outlets and a more thoroughgoing policy of subsidies and government contracts.

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"We," said Henri Krasucki, deputy secretary-general of the communist CGT, "do not favor any autarchic and protectionist policy. But we do believe that it is indispensable to adopt measures which will enable us to control and limit the excessive imports which are hurting French industries and thereby threatening our jobs. And it was with this view in mind that, in a document we sent to President Mitterand, we asked him to take measures that would block the transfer abroad of products and technologies that could be made and developed in France. I know that it would be absurd to consider any return to protectionism: but I am just as sure that the time has come to put the brakes on the invasion of our market by German, Italian, or Belgian companies that sell us products made in their factories in such cheap-labor countries as Hong Kong or Singapore."

How, we asked, does the "wine war" fit into all this? Krasucki chose to duck that question, and shifted the discussion over to the EEC's agricultural policy. "It is precisely to prevent the occurrence of crises like the wine war that we are pushing for a review of Community farm policy. It is a system which, thus far, has been confined essentially to supporting producers' price levels and has turned out to be extremely expensive: what it boils down to is that the taxpayers are paying for the dubious privilege, as consumers, of paying even higher prices for their groceries. We are convinced that there must be far-reaching reform in the Community's agriculture policy which has contributed to inflation and which, furthermore, has widened the gap between food producers in the various EEC countries and, within individual national agricultural communities, between big farms and little ones. It is a policy that has created all the premises for situations which -- witness, for that matter, the "wine war" -- will eventually plunge us into very touchy economico-social conflict among the poorest farmers in the EEC. It is time for them to realize up there in Brussels that the mass of producers in no way coincides with the mass of production, and that it is therefore socially unacceptable to go on pouring ever more massive sums into a mechanism which, while it satisfies the former, has only very modest impact indeed on the latter."

Understandably less forthright is the opposition from the business community which is refraining from any official embrace of the protectionist temptations of the socialist government; it does not hesitate, however, to underscore the negative impact on industry of the steadily growing presence of foreign products on the French market.

"Over the past 5 years," we were told by Michel Develle, deputy director of Paribas' studies office, "French industry has lost a major share of the domestic market. Only over the past 12 months, the mean rate of market penetration by imports has risen by 1 percentage point to reach 30 percent, with peaks of 33 percent for means of transport and of 48 percent for office equipment. During 1979 and 1980, foreign producers cornered 51 percent of the major appliance and furnishings market, as compared to their 43-percent share in 1978. There is no grounds for astonishment, therefore, if some sectors of the economy

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share with the government the view that we must have more effective control over imports, to make sure that the terms of the trade agreements France has entered into with the Third-World bloc and the regulations adopted by the EEC are respected to the letter. More specifically, so that we can cope with the increasingly frequent phenomenon of products sold to us, for example, bearing "Made in Germany" labels, but which are in fact made in Asia or in South America."

[6 Oct 81 p 5]

[Text] "Mitterand's not the one who's sabotaging the EEC," says economist Jacques Attali.

PARIS: -- Special adviser to President Mitterand, economist Jacques Attali is only 38, yet he is the Grey Eminence of the Elysée. Professor of economic sciences at the prestigious Paris Polytechnic School, and a successful author -- among the most eclectic of his generation (he has written, among other works, such disparate books as "Three Worlds," "The Word and the Tool," "Rumors," and "The Cannibal Order," the latter two dealing with the political economy of music and medicine, respectively). Attali is a theoretician of the classical socialist school. And our talk with him concludes this inquiry into the change of course under the new leftist government, which it is determined to stamp on the economic and social structures of France.

[Question] A careful assessment of the records of experience accumulated in Italy and Great Britain lead to the conclusion that nationalization is very bad business for western-style economic systems. Their management consistently shows losses, and hence requires massive transfusions of government funds, and delivers no dividends worth mentioning, either in industrial development or in generating new jobs. This explains why eminent socialist economists are pushing now for returning broad reaches of industry now under State control -- such as steel and chemicals -- to the private sector. What makes you think that nationalization in France will work wonders which it has failed to produce elsewhere?

[Answer] Nationalizations are a key instrument in employment policy. In the present recession phase, we must seek the solution to the crisis in getting investment funds flowing again into the cutting-edge or hi-tech sectors. And if it is to last, that flow of investment money will be posited on the belief that industry will have access to adequate financial resources, that it will operate in a context of economic stability, and that it will have solid prospects for growth. All this, however, does not fit with the logic of the industrial capitalist system, essentially because, rather than selecting specific territorial turfs, the big industrial conglomerates tend to look for growth through policies rooted in the multinationalization of their productive structures. I am convinced that some day the "French model" of nationalizations will be copied by other western countries, including those that are already highly efficient. For that matter, Japanese capitalism is

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very similar to what we are planning to do in France -- at least to the extent that there is in Japan a high level of convergence between corporate strategy and that of the State. Why do I have such faith in our model? Because -- and this is extremely important -- we are not nationalizing failing companies so as to socialize their losses: on the contrary, we are nationalizing the dynamic and efficient firms so as to accentuate their energy and their competitive stance and, by so doing, to put them in a position to make a greater contribution to the economic and social reforms to which the nation's overall development is subordinate.

[Question] The cost of all these reforms is going to show up, though, and very heavily, in the national budget: the upshot of that will be, predictably, swift expansion in the money supply at home in response to the marked growth in the national debt, and will finally add fuel to the already roaring flames of inflation. How do you think it will be possible to reconcile the goals of providing more jobs and raising demand with the equally fundamental goals of economic stability?

[Answer] For fiscal 1982 we have predicted a budget deficit of 95 billion francs. This is not in the least excessive: it represents a scant 2 percent of the French GIP. That leaves us, then, well-below the deficit-to-GIP ratio of most of the other western industrial nations, which averages around 5 percent. I do not believe we are asking the French economy to make intolerable financial efforts. The nationalizations themselves will involve very limited overall costs, in terms of both revenues and budgeted spending. As for inflation, I will tell you that I do not share at all the thinking that holds a budget deficit to be inflationary per se. Take, for instance, the case of Japan and Austria: here you have two countries which have both managed to run substantial budget deficits and to keep inflation at very moderate levels. On the other hand, though, we have the example of Great Britain, where they have a substantial budget deficit coupled with runaway inflation. Therefore we must not do as traditional economic theory would have us do, and blame budget deficits for automatic effects which they do not always produce. Inflation is the result of a combined lack of competitiveness and of social consensus: and a budget deficit, properly handled, can work to restore both.

[Question] Getting industrial production rolling and boosting employment levels means an adequate flow of long-term investment money, and hence relatively low interest rates: protecting the exchange value of the franc abroad and its purchasing power at home means, on the contrary, fairly high interest rates. How do you think you can get around the obvious incompatibility of these two economic requirements?

[Answer] You are perfectly right. And it is these two considerations which have repeatedly spurred the French government in every international forum to underscore the heavy negative impact of the restrictive monetary policy of the United States on the economies of the other western nations. President Mitterand, for that matter, has instructed Economy Minister Delors to do whatever must be done so that, on the European level, we start looking for formulas that will let us, together,

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take steps to stabilize interest rates and currency exchange rates and thus to neutralize, insofar as possible, the impact -- at once inflationary and recessionary -- of American monetary policy on the economies and recovery programs of all our countries. As for France, we have managed to make sure that our businesses are able, through machinery for selective intervention, to find the financing they need for their own investments at lower interest rates than they can find on the market right now.

[Question] Will it be possible, in your view, to reconcile the priorities of France's economic policy, which center first on relieving unemployment, with those of Federal Germany's policy, whose prime target is inflation?

[Answer] I am convinced that France and Germany -- but of course this applies to the rest of the Western world as well -- ought to deal on a priority basis with the problem of unemployment. This is the key to the solution of the problems of recession and inflation. As I said earlier, inflation is essentially a matter of competitiveness and of productivity. Hence there is no inconsistency between the economic policy of France, of Germany, of Italy and that of the other industrial powers, provided that the goal we all set ourselves is that of boosting the competitive stance of our systems. And I fail to see any risk whatsoever of any significant divergence in the relative value of our several currencies.

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ECONOMICS

ITALY

AGNELLI INTERVIEW ON EMS, FIAT-IRI ACCORD, CONTRACTS

Turin LA STAMPA in Italian 9 Oct 81 pp 1-2

[Interview with Giovanni Agnelli by Marion Pirani, Turin, date not given]

[Text] Exclusive interview with president of FIAT. Agnelli gives FIAT's prescription for keeping Italy an industrial power. Italy is in danger not only of dropping out of the EMS, but of shattering it. We don't need brokers: we do need unit-lateral government initiative. The FIAT-IRI agreements will not force us to change course. Skewed markets led to the understanding with Alfa Romeo. Firing the 61 workers for in-plant violence was a plain duty, whereas laying off 23,000 is a painful necessity.

TURIN -- In good times and bad, whatever happens to FIAT is an index to the national trend in the economy and in our society. These days the news coming out of Via Marconi is a mixed bag. We hear that another 80,000 FIAT employees are being put on compensated furlough, that there has been a deal with IRI in the automobile, steel, and electronics sectors, that updated market forecasts reflect the devaluation of the lira, that the deadline for contract renewal with the metalworkers is nearing. Giovanni Agnelli consented to answer our questions on these and other matters.

[Question] One newspaper report says that the woes besetting FIAT, with the new request for income supplements for laid-off workers, has reached its most perilous point yet, while other observers claim to see a way out, along the lines of the way it has been handled in the United States, where Ford, Chrysler, and General Motors have moved back into the black. Is this an opinion you would share?

[Answer] Look: what we are facing here is not just a crisis in one automotive company, but one that affects the entire world market. General Motors, Ford, and Chrysler have undergone drastic restructuring, cutting back their payrolls by nearly half -- from the previous million-man level to 600,000 today. And for these people there is no longer any chance of getting their jobs back. FIAT has faced the situation squarely, on the one hand cutting back on production, making use of such devices as the compensated furlough fund which, although very expensive indeed, still work as social shock-absorbers and do not give rise to major trauma; on the other hand, we have demonstrated our great vitality, moving aggressively into the markets with new models and winning the top spot in sales in Europe. Unfortunately, the crisis looks as if it will hit bottom in

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1982, when we may no longer be able to count on the extraordinarily high level of the domestic market (where we sell 60 percent of our output) that has marked the last 2 years. We are, in other words, bracing ourselves for a period of tightening, perhaps as drastic as 10 percent.

[Question] Is it this outlook that pushed you to seek the agreement with IRI, in spite of the danger of tarnishing the private-enterprise image you have always boasted, and condescending to play footsie with the bankrupt sectors kept alive by transfusions from the public funds?

[Answer] The principles of private enterprise are still the bedrock of our operations. For that matter, why should we abandon them when even the top spokesman for a socialist government, like France's minister for industry, M. Dreyfus, has been making a point -- specifically to make nationalization more acceptable -- of emphasizing that all industries taken over by the State will be run according to sound private enterprise criteria? On the other hand, it is very serious indeed when private entrepreneurs start behaving like government managers. And in this country we have altogether too many examples of that sort of thing.

[Question] If that is the case, why did you strike a deal with a debt-laden outfit like Alfa Romeo?

[Answer] Here in Italy, one of the two protagonists in the automotive sector is, by its very nature, free of the pitiless laws that govern the market. Taking it as a given that it will perforce survive, come what may in the way of the financial losses and market distortions it involves, we had no option but to seek the best solution for putting some order into the future, at least, and for getting the maximum yield for the minimum investment.

[Question] What does that mean, in practical terms?

[Answer] That FIAT, for instance, can sell Alfa its chassis, and that Alfa can move up the date for unveiling its new models. Instead of scrambling around looking for endowment funds, we can, by joining forces, put together an automotive industry policy and implement it.

[Question] But isn't this the road to a joint application for financial backing from the State?

[Answer] All we would like to see is State aid, particularly in connection with technological research, brought into line with what our foreign competitors get from their governments. Thus far, we haven't got a lira.

[Question] To wind up this point: doesn't it seem to you, in any case, that the IRI agreement marks an all-time low for a company like FIAT, which thus far has vaunted its lofty multinational ambitions? Don't you perceive in this turn-about the dread possibility of a forced retreat into protectionism on the domestic market?

[Answer] Back in the Sixties, we were the first to offer France's Citroen a merger agreement, but even then we discovered that we were dealing with a country



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far more chauvinistic than we had ever expected. Furthermore, even in the other EEC countries, there have been only in-country mergers. We, on the other hand, with our Inveco and FIAT-Allis deals, and with the plan for the FIAT-Peugeot engine, have striven to block this tendency wherever we could. As for the component sector, we are continuing to move forward along that road and the agreement with Alfa in no way conflicts with that policy. We must not, though, overlook the protectionist peril, and, while right now the French seem to be leaning in that direction, we also know full well that the temptation to follow bad examples can grow very strong indeed in a country with an economy as fragile as ours. And I say this to you with deep anxiety.

[Question] This latest devaluation of the lira, though, will be to FIAT's advantage. Do you have some conception, even now, of what it will mean?

[Answer] Our experts reckon that it will boost inflation by one or 2 points. From the purely commercial point of view it is clear that our competitive stance vis-a-vis Germany will be improved over some months. But this is now, as it has been in the past, merely a stopgap remedy which does not go to the root of the ailment. We have simply got to realize that sooner or later the time will come when that machinery will break down, never to run again.

[Question] FIAT was one of the big powers in the Italian economy most in favor of our joining the European Monetary System. Do you still feel that way?

[Answer] When we at FIAT came out in favor of Italy's joining the EMS we were concerned with only one thing: keeping our country within the context of the more advanced European powers. To do this, though, we needed a little time -- a year or so -- no more -- for Italians to get into step with the methods of economic management in common use among industrial nations. In other words, if Italy was to be part of the EMS, it would have to draw rein and deal resolutely with the main bottlenecks in its own system of economic and social relations. Unfortunately we must admit that Italy has not managed to keep pace; we have lacked the courage or perhaps the ability to swallow the proper medicine in time. Now, in fact, just as a man who cannot keep up the cadence drops out of the platoon, so our country is in danger not only of dropping out of the EMS, but of shattering it. The consequences may be grave indeed to our economy and to our position in the world.

[Question] Devaluation of the lira makes the government's commitment to hold down the inflation rate even more binding. Just what odds would you give on Spadolini's success?

[Answer] His initiative must get all-out support from every side. But we cannot longer cling to the illusion that good offices and negotiations between industry and labor can get us anywhere. We need unilateral action by the government. The prime minister's resolve is unquestionable, and his commitment is total. It remains to be seen whether or not he will get the necessary backing from the political majority.

[Question] Agreement with the unions on labor costs would seem out of the question, given the way things stand now. Does your open quarrel with the top people in Confindustria stem from the fact that you think it is behaving too rigidly, or not demonstrating enough flexibility?

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[Answer] If you ask me to judge the behavior of the parties involved, this whole negotiation is totally useless. We are looking here at a no-exit situation, unless, of course, the government steps in and directly takes the initiative.

[Question] Starting with the firing of the 61 FIAT employees charged with violence in the plant, and right up to the sensational squabble over putting 23,000 workers on compensated furlough, FIAT seems to have been taking a harder line than has been its wont in the past. Are you planning to stick to this attitude when you go to the table for renewal of the metalworkers' contract?

[Answer] Firing those 61 workers was something we owed to FIAT workers: we had to make life in the plant bearable. Furloughing those 23,000 people, though, was a painful necessity, dictated by the behavior of the market. The workers clearly understood this, since they are keenly aware of the real problems hanging over the company's future. As for the contract negotiations, I have only this to say: how can we possibly believe we are dealing with it, when we cannot manage to undo the fundamental tangles that, willy-nilly, govern our entire productive system? Take one example: Italy is the only country where, in 10 years, real wages have risen steadily while compensational recognition of vocational skills has steadily declined? We cannot go on like this, and I mean we cannot go on any longer. We must make a break in the very next round of contract negotiations.

[Question] The unions today are pursuing a tactic of militancy in the plant which is less extreme than in years past. In your view, does this attitude open up new vistas for the Red Brigades (BR), or will it help to isolate the terrorists?

[Answer] I am certain that a less extremist attitude will also help to set up a vacuum around terrorists in the plants.

[Question] In recent articles and speeches some of the top people in Confindustria, ranging all the way from Carli to De Benedetti, have hinted at the idea that the communists must be taken into the majority if we are to achieve the social consensus indispensable for rendering the national governable again. There was a time when there was an ongoing -- albeit long-distance -- dialogue between you and such communists as Giorgio Amendola. Do you think it would be possible to reopen that dialogue with Berlinguer today?

[Answer] There are two recipes for governing: one is global, or totalitarian, and the other is that of parliamentary democracies, in which the criterion is the majority. I still believe in the latter, and I think that the communists can form a government of their own only if and when they get a majority of the votes.

[Question] Do you too subscribe to the opinion that our economic troubles stem primarily -- at least right now -- from Reagan's monetary policy?

[Answer] The habit of continually complaining about the Americans used to be confined to the underdeveloped nations of Latin America, and I am confident that it will never take root here. Of course, nobody who preaches policies of discipline and rigor is going to please a congregation used to letting itself be swindled. On the other hand, if you want to protect and improve your country's prosperity you cannot escape the consequences of a fight against inflation. All

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60 million Italians must be brought to the awareness that, of the 4 billion 400 million people on this earth, they live in the tiny enclave of those who enjoy the benefits of an industrial society (a mere 17.5 percent, according to OECD figures). Well, now: do we want to compromise this happy state of affairs out of sheer inability to discipline ourselves for a couple of years? Do we want to blind ourselves to the fact that it would not take very much, given the present international situation that impinges on us in so many ways, to plunge ourselves down among the number of countries where depression is eternal, and where prosperity and freedom are still in the realm of dreams?

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